EXECUTIVE SECRETARIAT

ROUTING SLIP

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		ACTION	INFO	DATE	INITIAL
1	DCI				
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8	DDS&T				
9	Chm/NIC				
10	GC				
11	IG				
12	Compt				
13	D/OLL				
14	D/PAO				
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Remarks

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Executive Secretary

18 Sept 85

Date

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Executive Registry
85- 3626

THE WHITE HOUSE
WASHINGTON

CABINET AFFAIRS STAFFING MEMORANDUM

Date: 9/18/85 **Number:** 316992CA **Due By:**

Subject: Economic Policy Council Meeting -- September 19, 1985 10:00 A.M. -- Roosevelt Room

	Action	FYI
ALL CABINET MEMBERS	☐	☐
Vice President	☑	☐
State	☑	☐
Treasury	☑	☐
Defense	☐	☑
Justice	☐	☑
Interior	☑	☐
Agriculture	☑	☐
Commerce	☑	☐
Labor	☑	☐
HHS	☐	☐
HUD	☐	☐
Transportation	☑	☐
Energy	☑	☐
Chief of Staff	☑	☐
Education	☐	☐
OMB	☑	☐
CIA	☐	☑
UN	☐	☐
USTR	☑	☐
GSA	☐	☐
EPA	☐	☐
NASA	☐	☐
OPM	☐	☐
VA	☐	☐
SBA	☐	☐

	Action	FYI
CEA	☑	☐
CEQ	☐	☐
OSTP	☐	☐
McFarlane	☐	☑
Svahn	☐	☑
Chew *(For WH Staffing)*	☑	☐
Hicks	☐	☑
Executive Secretary for:		
DPC	☑	☐
EPC	☐	☑

REMARKS:

There will be an Economic Policy Council meeting on Thursday, September 19, at 10:00 A.M. in the Roosevelt Room.

The agenda and background paper are attached.

RETURN TO:

☑ Alfred H. Kingon
Cabinet Secretary
456-2823
(Ground Floor, West Wing)

☐ Don Clarey
☐ Rick Davis
☐ Ed Stucky

Associate Director
Office of Cabinet Affairs
[illegible] (Room 129, OEOB)

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THE WHITE HOUSE

WASHINGTON

September 18, 1985

MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

FROM: EUGENE J. McALLISTER EM

SUBJECT: Alaskan North Slope and Cook Inlet Oil Exports

The agenda and paper for the September 19 meeting of the Economic Policy Council are attached. The meeting is scheduled for 10:00 a.m. in the Roosevelt Room.

In considering a possible Administration trade legislative initiative, the Council asked that a paper be prepared presenting options on whether the Administration should support steps to permit the export of Alaskan North Slope and Cook Inlet oil. The attached paper prepared by an interagency working group chaired by the Department of Energy reviews the background of the issue, the trade, maritime, and energy policy implications of permitting such exports, and several policy options.

Attachments

THE WHITE HOUSE

WASHINGTON

ECONOMIC POLICY COUNCIL

September 19, 1985

10:00 a.m.

Roosevelt Room

AGENDA

1. Alaskan Oil

THE WHITE HOUSE

WASHINGTON

September 18, 1985

MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

FROM: THE WORKING GROUP ON ALASKAN OIL EXPORTS

SUBJECT: Alaskan North Slope and Cook Inlet Oil Exports

In discussing the possibility of proposing an Administration trade initiative to promote free and fair trade and stem support for protectionist measures, the Council raised the question of whether that initiative should include measures to permit the export of Alaskan oil. The question of exporting Alaskan oil raises two specific issues. First, should the Administration support, as part of the trade package, permitting the export of oil from the North Slope of Alaska? Second, should the Administration take administrative actions permitting the export of oil from the Cook Inlet area of Southern Alaska?

BACKGROUND

Alaska produces about 1.7 million barrels per day (b/d) of crude oil, which far exceeds demand in Alaskan or West Coast markets. As much as 800,000 b/d are shipped to East and Gulf Coast refineries. Most of this production, about 1.6 million b/d, is from the Alaskan North Slope. Only about 60,000 b/d is produced from Cook Inlet.

The Congress has enacted a series of restrictions preventing the export of oil from the U.S. The most restrictive measures apply to the Alaskan North Slope oil, including a specific absolute ban in the Export Administration Act of 1985.

The export of Cook Inlet oil would require a "national interest" finding by the President (or the Secretary of Commerce, to whom the President has delegated this authority) under the Energy Policy and Conservation Act. Congress has no explicit authority to disapprove a "national interest" finding. The President made such a finding on June 14, 1985 to permit oil exports to Canada.

Without these and other restrictions, Japan, Korea and Taiwan would probably import more U.S. oil products. Japan could benefit because buying oil from the U.S. would diversify its sources of oil. U.S. economic efficiency would increase because importing oil from the Middle East, Mexico, or Venezuela to replace Alaskan oil would reduce transportation costs considerably.

POLICY CONSIDERATIONS

There are several factors that should be considered in deciding whether to support permitting the export of Alaskan oil.

Trade. U.S. restrictions on oil exports conflict with our policy of encouraging the free flow of trade. Restricting our oil exports hurts our ability to encourage other countries to reduce trade barriers. Moreover, removing restrictions on U.S. oil exports continues the focus of the Administration's trade policy on expanding exports, instead of restricting imports.

Permitting Alaskan oil exports would not change the overall U.S. merchandise trade deficit because exports of Alaskan oil would be offset by imports of oil from abroad. However, given the attention focused on the U.S. trade deficit with Japan, permitting Alaskan oil exports could reduce the size of the bilateral deficit by as much as $15 billion annually. There is some question, though, whether reducing the U.S. trade deficit with Japan in this manner (through exporting oil) would contribute to our efforts to defuse protectionist pressures in the Congress or detract from our efforts to the extent it attracts opposition from the maritime industry and criticism from those arguing that the U.S. should not export strategic resources, such as oil. Moreover, there is strong Congressional opposition to the U.S. exchanging raw materials for manufactured goods with Japan.

Maritime. The Alaskan oil trade is the only major domestic maritime trade. Removing restrictions on U.S. oil exports would seriously harm the U.S. maritime industry. DOT estimates that exporting all Alaskan oil would probably permanently displace 50-60 U.S. tankers, expose the Federal Government to as much as $1 billion in defaults of government-guaranteed loans to U.S.-flag tankers, and eliminate about 3500 maritime jobs.

Removing restrictions on U.S. oil exports could expose the President to criticism by some regarding a 1980 statement: "The principle that a nation's own ships should carry its coastal trade, presently embodied in the Jones Act, has been part of this country's maritime policies since the early days of the Nation. I can assure you that a Reagan Administration will not support legislation that would jeopardize this long-standing policy or the jobs dependent on it."

Energy. The original justification for restrictions on U.S. oil exports has been overtaken by the reduced vulnerability of the U.S. to oil embargoes.

Because the delivered price of oil in the U.S. and Japan is based on the price of Saudi crude plus total transportation charges, lower transportation charges result in higher wellhead prices for Alaskan oil producers. If all Alaskan oil were exported, revenues to U.S. oil producers (through higher profits), the State of Alaska (through royalties, severance taxes, and State income taxes), and the Federal Government (through "windfall" profits and corporate income taxes) should increase by several billion dollars over time. In addition, the higher oil wellhead price could stimulate additional oil production.

National Security. To the extent U.S. tankers are permanently displaced from U.S. trade, the Defense Department would probably buy and maintain them to preserve our logistical support capacity. This could cost as much as $100 million-$250 million.

U.S.-Japan Relations. Prime Minister Nakasone has expressed the Japanese interest in buying Alaskan oil repeatedly in meetings with President Reagan and is expected to do so again in their October 23 meeting. Maintaining restrictions on U.S. oil exports reduces our leverage in pressing the Japanese to reduce their trade barriers, particularly their restrictions on imports of refined petroleum products which they pledged to reduce at the July International Energy Agency meeting. On the other hand, removing these restrictions before Japanese action on refined oil could reduce their incentive to fulfill their commitment.

Some of the President's past statements regarding the export of Alaskan oil and the maritime industry are contained in an appendix to the paper.

POLICY OPTIONS

The Administration faces two decisions: (1) whether to support permitting the export of Alaskan North Slope oil, which would require legislation; and (2) whether to support permitting the export of Cook Inlet oil, which could be done administratively.

North Slope Oil Exports

Option 1: Take no action now to permit North Slope oil exports and wait for completion of a study of this issue by the Commerce Department required by the Export Administration Act and due by April 1986.

Advantage

- Excluding this proposal from the possible trade legislative initiative avoids strong criticism on this front. 48 Senators and 272 Representatives cosponsored a ban on North Slope exports in the Export Administration Act.

Option 2: Ask Congress to permit the export of "incremental" oil, i.e., production from new discoveries, areas not now producing, or volumes above current levels. This approach could yield exports ranging up to 100,000 b/d in the short-term and over 1 million b/d over a decade.

Advantage

- Permitting the export of only "incremental" oil would achieve some movement toward freer trade without risking as much opposition from the maritime industry as permitting exports of all Alaskan oil.

Depending on the definition of "incremental" oil, there should be no loss of maritime jobs in the short-term and may be no loss of such jobs in the long-term.

Option 3: Ask Congress to permit the export of up to 200,000 b/d annually of North Slope oil.

Advantages

- Permitting the export of up to 200,000 b/d annually of North Slope oil offers benefits and costs that are both commensurately larger than those of permitting the export of only "incremental" oil. This approach could reduce the U.S. trade deficit with Japan by as much as $1-2 billion annually.

Option 4: Ask Congress to repeal all limitations on export of Alaskan oil.

Advantages

- Permitting the export of all Alaskan oil could reduce the U.S. trade deficit with Japan by as much as $15 billion annually, which could reduce the pressures for protectionist legislation.

- Permitting such exports strengthens our position in encouraging our trading partners to reduce their trade barriers.

Cook Inlet Oil Exports

Option 1: Take no action to permit Cook Inlet oil exports.

Advantage

- Excluding this proposal from the trade initiative could avoid some criticism on this front because the maritime industry could interpret this proposal as a first step toward permitting the export of all Alaskan oil.

Option 2: Permit the export of Cook Inlet oil through administrative action.

Advantages

- The President has already said that he personally favors permitting such exports. Continued delay on this issue would hurt his credibility.

- Permitting such exports would be a symbolic action in favor of free trade without attracting as much Congressional opposition as permitting North Slope exports because Cook Inlet oil production is small and very little of it is likely to be exported.

PRESIDENTIAL STATEMENTS ON ALASKAN OIL EXPORTS

"... I share the view that it would be an asset to the United States to do this."

-- Press Conference, February 22, 1984

"... we want to make sure that there is a merchant marine in existence in this country."

-- Press Conference, February 22, 1984

BUSINESSWEEK: Japan has long wanted to import oil from Alaska's North Slope, but foreign sales of that oil are prohibited by law. Would you seriously consider legislation to change that?

PRESIDENT REAGAN: Yes I would. It makes a lot of sense. We don't have refineries on the West Coast that can handle our Alaskan crude, so it has to be transshipped around the Panama Canal and then goes to Gulf of Mexico refineries. And it would be a short haul for Japan. It seems to me there is a benefit there for all of us.

-- Businessweek, February 14, 1983

"The principle that a nation's own ships should carry its coastal trade, presently embodied in the Jones Act, has been part of this country's maritime policies since the early days of this Nation. I can assure you that a Reagan Administration will not support legislation that would jeopardize this long-standing policy or the jobs dependent on it."

-- St. Louis, Missouri, October 9, 1980